

# 2003 Revenue Review

In 2003, 86.5 percent of all tax revenue collected by the State of Nebraska was collected by the Nebraska Department of Revenue. Tax collections for the year were \$3,183 million, an increase of \$194 million or 6.5 percent above 2002. The receipts from permits, fees, and licenses collected by the department were \$263 thousand, a decrease of 38.1 percent from the previous year.

Over three-quarters of the department's net tax receipts in 2003 were from state sales tax and income taxes. Net individual income tax receipts decreased \$14 million to \$1,150 million in 2003, a decrease of 1.2 percent from 2002. Net receipts from corporation income tax were \$142.3 million in 2003, up \$49.3 million or 53.0 percent from 2002. Net state sales and use tax receipts for 2003 totaled \$1,076 million, an increase of \$118.1 million or 12.3 percent above 2002. Sales tax receipts included \$160.4 million of sales tax on motor vehicles.

The largest share of tax revenue is deposited in the State General Fund. General Fund revenue sources accounted for 75.5 percent of the total revenue collected by the Department of Revenue in 2003. Sales and income taxes are the primary sources of General Fund revenue.

Motor fuels taxes and sales tax on motor vehicles are deposited in state highway funds. Revenue deposited in the Highway Trust Fund, Highway Allocation Fund, and the Highway Cash Fund accounted for 14.0 percent of revenue collections.

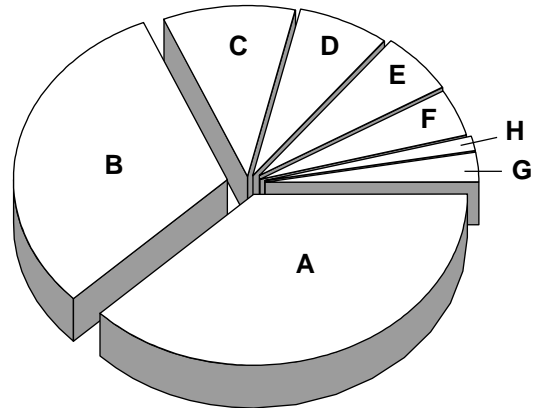
In 2003, 7.9 percent of revenue collections were distributed to local governments. City sales tax and county lodging tax are collected by the Nebraska Department of Revenue and distributed directly to cities and counties.

Revenue deposited in other governmental funds accounted for the remaining 2.6 percent of collections.

The major state revenue sources are described beginning on page 8. The descriptions include the basis and current tax rate, due dates of reports and payments, administering agencies or officials, and the manner of distribution of each tax or fee.

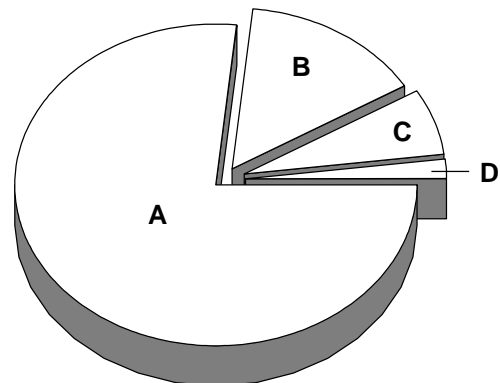
## Sources of Revenue

A	Individual Income Tax .....	36.1%
B	State Sales and Use Tax .....	33.8%
C	Motor Fuels Taxes .....	9.0%
D	City Sales Tax .....	7.6%
E	Sales Tax on Motor Vehicles .....	5.0%
F	Corporation Income Tax .....	4.5%
G	Cigarette Tax .....	2.1%
H	Other Collections .....	1.9%



## Distribution of Revenue

A	General Fund .....	75.5%
B	Highway and Road Funds* .....	14.0%
C	Local Governments .....	7.9%
D	Other Funds .....	2.6%



\* Includes the Highway Trust Fund, Highway Allocation Fund, and Highway Cash Fund

# 2003 Revenue Legislation

The following is a summary of the major legislation passed by the 2003 Legislature that relates to taxes collected by the Nebraska Department of Revenue.

## **SALES AND USE TAX**

### ***Sales and Use Tax Rate***

Beginning October 1, 2003, the Nebraska sales and use tax rate will remain at 5.5 percent. (LB 759)

### ***New Services Subject to Tax***

Beginning October 1, 2003, the following services are subject to tax:

- Recreational vehicle park services
- Repair and maintenance labor on tangible personal property, excluding motor vehicles
- Animal specialty services \*
- Detective services
- Contractor labor \*\*

\* Animal specialty services does not include professional veterinary services and services performed on livestock.

\*\* Taxable contractor labor excludes original construction of a structure, addition of a floor or room to an existing building, restoration or replacement of a damaged structure due to fire or natural disaster, construction or repair of structures used to generate or transmit electricity, and the major renovation of an existing building. (LB 759)

### ***Sales Tax Exemption***

Effective July 1, 2003, purchases of industrial machinery and equipment by another state or local governmental body are exempt from sales and use tax if the other state or local governmental body provides a similar exemption to Nebraska and its political subdivisions. (LB 168)

### ***Streamlined Agreement***

Nebraska is joining other states in enacting the Streamlined Sales and Use Tax Agreement. Beginning January 1, 2004, sales tax collection obligations will be simplified for both in-state retailers and out-of-state retailers making sales to Nebraska businesses and residents. The Agreement provides uniform definitions for key items in the tax base,

uniform rules for determining the location of a sale, uniform exemption certificates and a central point of administration for participating states. (LB 282)

### ***Rental or Lease of Motor Vehicles***

Beginning October 1, 2003, the rental or lease of a motor vehicle is subject to tax at the rate in effect on the date the vehicle is delivered to the lessee. (LB 381)

### ***Newspaper Advertising Supplements***

Beginning in October 1, 2003, sales and use tax applies to sales of newspaper advertising supplements delivered in this state unless the supplements are delivered by a printer directly or via common or contract carrier to a newspaper publisher. (LB 759)

## **INCOME TAX**

### ***Income Tax Rates and Standard Deduction***

The individual and fiduciary income tax rate increases enacted for tax year 2003 have been made permanent. (LB 759)

A Nebraska standard deduction for tax year 2003 was established as follows:

- Single taxpayers - \$4,750
- Head of Household - \$7,000
- Married filing jointly - \$7,950
- Married filing separately - \$3,975

Higher standard deductions will be allowed for elderly and blind taxpayers. Beginning in 2004, the Nebraska standard deduction will be adjusted annually for inflation. (LB 596)

### ***Refund Donations***

For tax years 2003, 2004, and 2005, individuals may designate one dollar or more of an income tax refund as a donation to the Nebraska State Fair Foundation. Contributions to the Nebraska Campaign Limitation Cash Fund are amended to allow contributions of one dollar or more. (LB 72)

### ***Business Child Care Credit***

Implementation of the Business Child Care Credit enacted in 2001 has been further deferred to tax year 2007. (LB 283)

## ***Bonus Depreciation***

The add-back of federal bonus depreciation has been changed to include depreciation received under the federal Jobs and Growth Tax Act of 2003 for assets placed in service during 2003 and before December 31, 2005. Twenty-percent of the add-back may be subtracted from income beginning January 1, 2006 and continuing for the next four years. (LB 596)

## ***Section 179 Expense***

Assets in excess of twenty-five thousand dollars which are expensed under Internal Revenue Code section 179 must be added back to federal adjusted gross income (individuals) or federal taxable income (corporations and fiduciaries). Twenty-percent of the add-back may be subtracted from income beginning January 1, 2006 and continuing for the next four years. (LB 596)

## ***Economic Incentives***

Beginning January 1, 2004, the Employment Expansion and Investment Incentive Act is changed to apply only in counties with populations less than 25,000 or in any designated enterprise zone. An application fee is established and new thresholds for earning credits are set at five new full-time employees, \$250,000 in investment, and payment of a qualifying wage. The credits allowed are changed to \$3,000 for each new employee and \$2,750 for each \$50,000 of new investment. The credits are refundable and must be recaptured if the thresholds are not met. (LB 608)

## ***Estate Tax***

The estate tax calculation has been changed for decedents dying on or after January 1, 2003. (LB 759)

## ***County Lodging Tax***

All counties, except for Douglas County which is currently permitted to impose an additional two percent lodging tax, may impose an additional two percent lodging tax for a County Improvement Fund. (LB 726)

## **MISCELLANEOUS**

### ***Financial Institution***

Beginning in tax year 2003, a financial institution is permitted to organize as a limited liability company. (LB 127)

### ***Homestead Exemption***

For applications filed in 2004 and after, the beginning date for filing an application for the homestead exemption is changed from April 1st to February 1st. (LB 192)

The definition of a veteran of the Vietnam War was changed to include persons who served on active duty in the Republic of Vietnam between February 28, 1961 and May 7, 1975. (LB 799)

### ***Late Payment Fees***

Beginning August 31, 2003, the State Treasurer is authorized to charge a fee for electronic payments that are not accepted. (LB 354)

### ***Cigarette Tax***

The cigarette tax rate increases enacted in 2002 have been made permanent. (LB 759)

The provisions relating to the reporting requirements under the Master Settlement Agreement for cigarettes and roll-your-own tobacco have been changed effective August 31, 2003. All manufacturers that are either participating in the Master Settlement Agreement or are nonparticipating members but are making deposits into escrow are required to make a certification of cigarettes and roll-your-own tobacco by brand family. Penalties for violating the provisions of the law consist of revocations of the wholesaler's stamping license and fines. (LB 572)

### ***Charitable Gaming***

Beginning April 3, 2003, the use of bingo card monitoring devices without the need to print paper copies for bingo players is permitted. (LB 429)